



**FILED**  
10-30-17  
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## **APPENDIX ONE**

**June 15, 2017**

**JOINT SETTLEMENT AGREEMENT BETWEEN  
SIERRA TELEPHONE COMPANY, INC. AND  
OFFICE OF RATEPAYER ADVOCATES  
A.16-10-003**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of Application of Sierra Telephone Company, Inc. (U 1016 C) to Review Intrastate Rates and Charges, Establish a New Intrastate Revenue Requirement and Rate Design, and Modify Selected Rates.

A. 16-10-003  
(Filed October 3, 2016)

**JOINT SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into as of June 16, 2017, by and between Applicant Sierra Telephone Company, Inc. ("Sierra") and the Office of Ratepayer Advocates of the California Public Utilities Commission ("ORA") in accordance with Article 12 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules"). Sierra and ORA are identified herein collectively as the "Parties."

**RECITALS**

WHEREAS, on October 3, 2016, Sierra filed a general rate case application ("Application") 16-10-003 seeking an increase in its revenue requirement, an increase to its draw from the California High Cost Fund A ("CHCF-A") and modifications to selected rates;

WHEREAS, on October 7, 2016, the California Public Utilities Commission ("CPUC" or "Commission") published in its Daily Calendar public notice of the filing of the Application;

WHEREAS, on November 2, 2016, ORA filed its Protest to the Application opposing certain aspects of Sierra's application;

WHEREAS, Sierra submitted pre-filed testimony from six witnesses addressing the issues raised by the Application;

WHEREAS, a Pre-Hearing Conference in this proceeding took place on December 9, 2016;

WHEREAS, a Public Participation Hearing took place on February 17, 2017;

WHEREAS, ORA submitted its opening testimony on March 20, 2017, and ORA's testimony was sponsored by five witnesses;

WHEREAS, Sierra submitted rebuttal testimony from nine witnesses on April 10, 2017;

WHEREAS, the Parties engaged in substantive settlement discussions during May and June 2017, and those discussions have led to the execution of this agreement;

WHEREAS, on June 14, 2017, the Parties held a duly-noticed all-party formal settlement conference in compliance with Rule 12.1(b);

WHEREAS, Sierra and ORA have arrived at a "black box" settlement agreement that comprehensively resolves all disputed issues by reaching agreement on the total figures for all key ratemaking metrics, including end user rates, overall intrastate revenue requirement, overall expenses, overall rate base, overall return on rate base, projected tax liabilities, depreciation rates, and anticipated revenues from specified categories;

WHEREAS, the Parties have not reached specific agreement regarding the sub-categories of regulated expenses or regulated rate base, but agreement on these specific items is not necessary to reach a comprehensive settlement that resolves this proceeding;

WHEREAS, the "black box" nature of the settlement is necessary because the overall categories of expense and rate base have been agreed upon for the purpose of settlement, but the

subsidiary categories of rate base and expense items cannot be agreed on by the Parties with any degree of specificity.

WHEREAS, the Parties' agreement on the relevant ratemaking metrics for Sierra is also subject to specific explanations and qualifications as set forth in the Agreement reflected herein;

WHEREAS, the Parties continue to have strongly-held positions regarding the issues in this proceeding that, absent adoption of this Settlement Agreement, will require adjudication;

WHEREAS, notwithstanding the Parties' differences, they have reached a proposed Settlement Agreement to avoid the cost, burden, risk, and uncertainty of further litigation of this matter;

WHEREAS, the proposed Settlement Agreement reflected herein is reasonable in light of the whole record, is consistent with the law of the State of California, and is in the public interest.

### **AGREEMENT**

NOW, THEREFORE, based upon the mutual agreement reflected in this Settlement Agreement, Sierra and ORA agree to resolution of Sierra's general rate case as follows:

1. The Parties hereby agree to a "black box" settlement in which no specific determinations are reached regarding individual expense or rate base items, but which instead relies on overall, agreed-upon figures for revenue requirement, rate base, and expenses. Projected tax liabilities and revenue items are specified in this agreement, but are subject to specific qualifications set forth herein.

2. The Parties agree on the following rates and ratemaking elements:

a. Rate of return: For purposes of calculating revenue requirement, the Parties agree to apply the 9.22% cost of capital that the Commission adopted in D.16-12-035, unless and until D.16-12-035 is annulled or revised by the Commission or a court of law, or the Commission adopts a new cost of capital for Sierra in a subsequent cost of capital proceeding. Should D.16-

12-035 be annulled or revised, any resulting adjustments to the cost of capital should be applied to Sierra based on the instructions from the Commission or the reviewing court.

b. Revenue requirement: Based on the 9.22% rate of return, the Parties agree to an intrastate revenue requirement in the amount of \$23,575,419.

c. Rate base: An overall rate base of \$22,000,000 shall be used for Test Year 2018. The Parties do not agree upon the specific, subsidiary expenses that comprise that overall rate base figure, and the Parties retain their filed positions as to those specific elements.

d. Return on rate base: Combining the cost of capital and the rate base, the Parties agree on a projected return on rate base of \$2,028,400.

e. Regulated expenses: The Parties agree upon an overall regulated expense figure of \$20,018,020. The Parties do not agree upon the specific, subsidiary expenses that comprise that overall expense figure, and the Parties retain their filed positions as to those specific expenses.

f. Tax liabilities: The Parties agree on overall tax liabilities, including state and federal income tax, of \$1,528,999. Subject to the qualifications in Section (i), below, the Parties agree on a specific tax calculation set forth in Attachment 1.

g. Results of operations: The Parties have displayed their agreement regarding the fundamental ratemaking metrics at issue in this proceeding in Attachment 2. The Parties' agreement does not extend to any figures that are not displayed in Attachment 2.

h. End user rates and rate design:

- i. Sierra tariffed basic, residential rates will be modified to \$25.00, exclusive of any surcharges, fees, or taxes, effective January 1, 2018, with no further adjustments until Sierra's next rate case.
- ii. The increased rates for basic business service, inside wire maintenance, and calling features will be as listed in Attachment 3.

- iii. Sierra's returned check fee will increase to \$20.00 per occurrence; as listed in Attachment 3.
- iv. Sierra will apply a late payment charge of 1.5% of unpaid balances of \$20.00 or more; as listed in Attachment 3.
- v. LifeLine rates will be determined by subtracting the applicable 2018 California Specific Support Amount and the federal Lifeline support from the combination of the residential tariffed rate and the Subscriber Line Charge, unless the Commission adopts an alternative LifeLine rate calculation in R.11-03-013. Sierra will submit a Tier 2 advice letter confirming the 2018 LifeLine rate within 10 business days of the Commission's release of the 2018 Specific Support Amount.
- vi. Sierra's rate design will be based on the following forecasted revenues:
  - 1. \$7,251,907 in Local Network Services revenues.
  - 2. \$1,877,545 in Interstate Universal Service Fund ("USF") support for intrastate revenue requirement.
  - 3. \$791,871 in intrastate access revenues.
  - 4. \$1,174,634 in miscellaneous and uncollectible revenues.
  - 5. The remainder necessary to fulfill revenue requirement from the CHCF-A, based on the revenue requirement in subpart (b), above. Under the current approved 9.22% cost of capital, this produces a CHCF-A draw of \$12,479,462.
  - 6. The Parties agree that the actual 2018 USF amount should be used in the rate design calculation once it is known, and it will be available in October 2017. Any adjustments to federal funding for intrastate operations from the projection informing the settlement (in item (2), above) would be subject to adjustment through the normal annual process in D.91-09-042, with corresponding adjustments to CHCF-A to reflect the actual amount of Interstate Universal Service Fund support that Sierra will receive for 2018. Adjustments for the revenue effects of "regulatory changes of industry-wide effect," including adjustment to Interstate USF, would also be governed by the annual process in D.91-09-042 to produce updated CHCF-A figures for 2018.
- i. Income Tax Rates and Potential Adjustments:

- i. The current income tax rate for Sierra shall be used for purposes of this Agreement.
- ii. If the current income tax rate changes after the decision is issued in this case and before January 2018, then Sierra will file a Tier 2 Advice Letter informing the Commission of the revised revenue requirement within 30-days of the tax change going in to effect.
- iii. If the current income tax rate changes after January 2018 and after the decision is issued in this case, then Sierra will file a Tier 2 Advice Letter with revised revenue requirement within 30-days of the tax change going into effect.

3. Depreciation: Sierra's depreciation rates and service lives will be adopted with exception of the following six accounts, whose rates will be as follows:

Account	Proposed Depreciation Rate
211200 - Motor Vehicles	1.9%
212200 – Furniture	0.1%
212300 - Office Equipment	3.0%
223100 - CO Transmission Radio	0.0%
241100 – Poles	0.0%
242200 - Under Cable	0.1%

The agreed-upon depreciation rates are summarized in full in Attachment 4 hereto.

4. Sierra will abide by the following requirements relative to its affiliates:
  - a. Sierra and each of its affiliates must be held in separate legal entities.
  - b. Sierra shall maintain separate books from its affiliates as to all transactions.
  - c. Sierra shall maintain separate bank accounts from its affiliates as to all transactions.
  - d. The cost of any advertising or marketing conducted jointly on behalf of Sierra and any of its affiliates will be apportioned according to the extent that the advertising or marketing benefits each company. Sierra's share of the cost of such advertising or marketing will not exceed an even division of the cost amongst all companies involved in the joint advertising or marketing.
  - e. Sierra shall not include in its regulated expenses the costs of any joint sponsorships, fundraisers, or charitable donations with its affiliates.

- f. Sierra shall not transfer any physical assets that are used and useful without first obtaining necessary approvals from the Commission.
- g. Sierra shall conduct financial transactions with its affiliates at "arms-length."
- h. Sierra will ensure that affiliate transactions are conducted at rates and upon terms no less advantageous than those otherwise available to Sierra or its affiliates from unaffiliated third parties for similar transactions.

5. Sierra will abide by the following requirements relating to service quality, safety and project reporting:

- a. Sierra will serve ORA with its annual ETC filing, which contains project and plant information that would allow ORA to track Sierra's progress towards its plant goals. In addition, Sierra will serve ORA and the Commission on an ongoing basis with an Annual Progress Report ("Report") on the status of its plant additions. The report will be submitted on or before September 15 of each year with information covering an annual period. The Report, which shall be submitted in excel format, will be submitted using the format attached herein as Attachment 5.
- b. If Communications Division facilitates a workshop on the topic of service quality and investments in broadband infrastructure projects, Sierra will actively participate with ORA in such workshop.
- c. Sierra will make a good-faith best effort to establish formal Mutual Aid Agreements (MAA) with other utilities, emergency responders, and local organizations. Sierra will also add and maintain the radio station KRYZ as a priority customer for voice and broadband service restoral.

6. Sierra and ORA agree to admit into the record of this proceeding testimony already served without waiving the right to object to such testimony or to cross-examine witnesses sponsoring such testimony in the event the Commission rejects or modifies the terms of this Settlement Agreement. The Parties do not waive any objections made in pending motions to strike by virtue of their agreement to admit testimony for purposes of this Settlement Agreement. The Parties further agree not to use this agreement to admit testimony for purposes of this Settlement Agreement to support the contents of the testimony admitted or its admissibility in any future proceeding.



7. The Parties understand and acknowledge that this Agreement constitutes a compromise and settlement of any and all disputed proposals or claims by the Parties. No action taken by either Party in connection with this Agreement shall be deemed or construed to be (i) an admission of the truth or falsity of any proposals or claims made by the other party or (ii) a waiver of any objection or claim in any motion to strike.

8. The provisions of this Settlement Agreement shall not be construed as or deemed to be a precedent by any party or the Commission with respect to any issue, principle, or interpretation or application of law and regulations, for any purpose or in connection with any proceeding before a court of law or any state or federal government regulatory body.

9. The provisions of this Settlement Agreement are not severable and shall have no force or effect unless and until the entire Settlement Agreement is adopted without modification. This Settlement Agreement shall only become effective after the Commission has entered an order approving this Settlement Agreement without modification. In the event this Settlement Agreement is not accepted in its entirety by the Commission, it shall be deemed to be withdrawn, without prejudice to any claims, positions or contentions that may have been made or are made in this proceeding by any Party and shall not be admissible in evidence or in any way described in any proceedings hereinafter.

10. The Commission shall have exclusive jurisdiction over any issues related to this Settlement Agreement and no other court, regulatory agency or other governing body will have jurisdiction over any issue related to the interpretation of this Settlement Agreement, or the rights of the Parties in this Settlement Agreement, with the exception of any court that may now or in the future, by statute or otherwise, have jurisdiction to review Commission decisions.

11. This Settlement Agreement was jointly prepared by the Parties and any uncertainty or ambiguity existing in the document will not be interpreted against any party on the basis that such party drafted or prepared the Settlement Agreement.

12. Each of the undersigned Parties agrees to abide by the terms of this Settlement Agreement.

13. The Parties agree that they will work together to secure the adoption of the Settlement Agreement and that no Party will take any action contrary to the Settlement Agreement.

14. The Settlement Agreement may be executed in counterparts.

15. This Settlement Agreement constitutes and represents the entire agreement between the Parties and supersedes all prior and contemporaneous agreements, negotiations, representations, warranties and understandings of the Parties with respect to the subject matter set forth herein.

16. This Settlement Agreement resolves all outstanding issues in this proceeding.

17. This Settlement Agreement cannot be amended or changed except by a written amendment signed by both Parties and approved by the Commission.

18. On or before June 16, 2017, the Parties will file a Joint Motion seeking Commission approval of the Settlement Agreement in its entirety and without change.

19. By signing below, each signatory represents and warrants that he/she is authorized to sign this Settlement Agreement on such Party's behalf and thereby binds such Party to the terms of this Settlement Agreement.

OFFICE OF RATEPAYER ADVOCATES  
OF THE CALIFORNIA PUBLIC UTILITIES  
COMMISSION

Dated: 6/15/17

By: *Elizabeth Echols*  
Elizabeth Echols  
Director of the Office of Ratepayer Advocates  
California Public Utilities Commission

SIERRA TELEPHONE COMPANY, INC.

Dated: June 15, 2017

By: *Cynthia A. Huber*  
Cynthia A. Huber  
President, Sierra Telephone Company, Inc.

# Attachment 1

# Tax Liabilities

Sierra Telephone Company, Inc.  
 Tax Liabilities  
 2018 Test Year

	Intrastate	
Operating Revenues		23,575,419
Operating Expenses		20,018,020
Operating Tax (Excl. Inc.)		<u>374,517</u>
Sub-Total		3,182,882
Tax Deducts (Fixed Charges)		284,679
Net State Taxable		2,898,203
Total State Income Tax	8.84%	256,201
Net Federal Taxable		2,642,002
Federal Income Tax Calculation:		
First 50,000 @	15.00%	7,500
50,000 to 75,000 @	25.00%	6,250
75,000 - 100,000 @	34.00%	8,500
100,000 - 335,000 @	39.00%	91,650
335,000 - 10,000,000 @	34.00%	784,381
10 - 15,000,000 @	35.00%	
15 - 18,333,333 @	38.00%	
OVER 18,333,333 @	35.00%	
Total Federal Income Tax		<u>898,281</u>
Total State and Federal Income Tax		1,154,482
Other Taxes		<u>374,517</u>
Total Tax Liabilities		1,528,999

# Attachment 2

## Results of Operations and Relevant Comparisons

Sierra Telephone Company, Inc. Test Year 2018 Results of Operations and Relevant Comparisons						
		ORA	Sierra	Difference		Proposed
		Proposed	Proposed	Proposed Intrastate		Settlement
		Intrastate	Intrastate	\$	%	Intrastate
		A	B	C=A-B	D=C/B	E
Operating Revenues:						
1	Local Rev.	7,011,093	6,535,443	475,650	7.28%	7,251,907
	Intrastate:					
2	Access Rev.	791,871	791,871	0	0.00%	791,871
3	Toll Rev.					
4	Interstate USF	1,877,545	1,877,545	0	0.00%	1,877,545
5	Interstate Settlement Rev.					
6	Miscellaneous Rev. & Uncollect	1,535,247	1,174,634	360,613	30.70%	1,174,634
7	CHCF-A	9,717,777	16,474,913	(6,757,136)	-41.01%	12,479,462
8	Total	20,933,533	26,854,406	(5,920,873)	-22.05%	23,575,419
Operating Expenses:						
9	Plant Specific	4,796,759	5,832,556	(1,035,797)	-17.76%	
10	Plt. Non-Spec.(less Depr.)	1,963,825	2,560,870	(597,045)	-23.31%	
11	Customer Operations	3,425,455	3,605,205	(179,750)	-4.99%	
12	Corporate Operations	1,522,052	3,989,020	(2,466,968)	-61.84%	
13	Depr. & Amort.	6,622,030	7,111,652	(489,622)	-6.88%	
14	Total	18,330,121	23,099,303	(4,769,182)	-20.65%	20,018,020
Tax Liabilities:						
15	Other Taxes	374,517	374,517	0	0.00%	374,517
16	State and Federal Income Tax	437,721	1,233,236	(795,515)	-64.51%	1,154,482
17	Total Expense and Tax	19,142,359	24,707,056	(5,564,697)	-22.52%	21,547,019
18	Net Operating Income	1,791,174	2,147,350	(356,176)	-16.59%	2,028,400
Rate Base:						
19	2001 - TPIS	118,583,587	120,265,363	(1,681,776)	-1.40%	
20	2003 - TPUC	62,257	2,181,724	(2,119,467)	-97.15%	
21	1220 - Mat. and Sup.	1,119,556	1,119,556	0	0.00%	
22	1500 - Other Regulatory Asset					

23	Working Cash	1,191,191	1,615,802	(424,611)	-26.28%	
24	Less: Accum. Depr.	(86,677,852)	(87,040,627)	362,775	-0.42%	
25	Less: Deferred Inc Tax	(5,131,347)	(5,131,347)	0	0.00%	
26	Less: Def Asset-Liability	(9,720,336)	(9,720,336)	0	0.00%	
27	Less: Customer Deposits	0	0	0	0.00%	
28	Total Rate Base	19,427,056	23,290,135	(3,863,079)	-16.59%	22,000,000
29	Rate of Return	9.22%	9.22%			9.22%



# Attachment 3

## Proposed Rate Design

## Attachment 3

Tariff Schedule	Service	Current Rate	2018 Rate
NEW	Late Payment Charge	n/a	1.5% unpaid balances > or = \$20
A2	Returned Check Charge	\$10.00	\$20.00
A3	1 Party Business	\$31.85	\$39.32
	1 Party Residential	\$20.25	\$25.00
A4	1 Party Lifeline	\$20.25	\$25.00
	1 Party Enhanced ULTS	\$20.25	\$25.00
A7	Centrex Access Line	\$31.85	\$39.32
A13	Keysystem Access Line	\$31.85	\$39.32
	PABX	\$31.85	\$39.32
	DID Trunk Line Non Enduser	\$39.85	\$49.20
	DID Trunk Line ISDN PRI	\$39.85	\$49.20
	DID Trunk Line	\$39.85	\$49.20
A15	Sierra Home Essential Residential	\$29.95	\$36.69
	Sierra Home Connect Residential	\$79.95	\$86.69
A25*	Anonymous Call Rejection Business – Standalone	\$1.25	\$1.54
	Anonymous Call Rejection Residential – Standalone	\$1.25	\$1.54
	Caller ID (Name and Number)	\$7.95	\$9.79
	Caller ID (Number) Business – Standalone	\$6.50	\$8.02
	Caller ID (Number) Residential – Standalone	\$6.50	\$8.02
	Call Forward – Standalone	\$1.75	\$2.16
	Call Forward Remote Access Business – Standalone	\$1.45	\$1.79
	Call Forward Remote Access Residential – Standalone	\$1.00	\$1.23
	Call Return Business – Standalone	\$4.90	\$6.05
	Call Return Residential - Standalone	\$3.40	\$4.20
	Call Waiting - Standalone	\$3.75	\$4.63
	Repeat Dialing Business – Standalone	\$4.90	\$6.05
	Repeat Dialing Residential - Standalone	\$3.40	\$4.20
	Select Call Rejection Business – Standalone	\$3.00	\$3.70
	Select Call Rejection Residential – Standalone	\$3.00	\$3.70
	Speed Call 30 – Standalone	\$3.75	\$4.63
	Speed Call 8 – Standalone	\$2.75	\$3.40
	Three Way Calling – Standalone	\$3.75	\$4.63
	CCS 4 Feature Package w/8-Code Capacity - Business	\$4.75	\$5.86
	CCS 4 Feature Package w/8-Code Capacity - Residential	\$4.75	\$5.86
	CCS 4 Feature Package w/30-Code Capacity - Business	\$5.75	\$7.10

**Attachment 3**

	CCS 4 Feature Package w/30-Code Capacity - Residential	\$5.75	\$7.10
	CCS 4 Feature Package w/Call Forwarding-Remote Access - Business	\$1.45	\$1.79
	CCS 4 Feature Package w/Call Forwarding-Remote Access - Residential	\$1.00	\$1.23
	CCS 4 Feature Package w/Distinctive Ring - Business	\$3.00	\$3.70
	CCS 4 Feature Package w/Distinctive Ring - Residential	\$3.00	\$3.70
	ACCS 3 Feature Package - Business	\$10.00	\$12.35
	ACCS 3 Feature Package - Residential	\$8.15	\$10.06
	Combined Feature Privacy Package - Business	\$8.50	\$10.49
	Combined Feature Privacy Package - Residential	\$8.50	\$10.49
	Combined Feature 4 CCS w/ 3 ACCS 8 -Code Capacity – Business	\$13.75	\$16.98
	Combined Feature 4 CCS w/ 3 ACCS 8 -Code Capacity – Residential	\$10.50	\$12.96
	Combined Feature 4 CCS w/ 3 ACCS 30 -Code Capacity – Business	\$14.50	\$17.90
	Combined Feature 4 CCS w/ 3 ACCS 30 -Code Capacity – Residential	\$11.00	\$13.58
	Combined Feature Privacy Plus Package - Business	\$13.20	\$16.30
	Combined Feature Privacy Plus Package - Residential	\$13.20	\$16.30
	Combined Feature Savings Plus Package - Business	\$17.50	\$21.61
	Combined Feature Savings Plus Package - Residential	\$14.50	\$17.90
	Combined Feature Package w/Call Forwarding - Remote Access - Business	\$1.45	\$1.79
	Combined Feature Package w/Call Forwarding - Remote Access - Residential	\$1.00	\$1.23
	Combined Feature Package w/Distinctive Ring - Business	\$3.00	\$3.70
A29	Inside Wire Maintenance	\$1.00	\$2.37

\* For tariffed bundles or packages that include customer calling features (listed individually in Schedule A25), the new standalone rates listed in this Attachment will be used as the starting point for the application of the discount applicable to the features in the bundle or package. The same percentage discount from the standalone tariffed rate will apply. This will maintain the current proportionality between standalone and discounted rates for each applicable service.

# Attachment 4

# Proposed Depreciation Rates

**Attachment 4**  
**Proposed Depreciation Rates Under Settlement Agreement**

ACCOUNT	DESCRIPTION	Proposed Depreciation Rate%
211200	MOTOR VEHICLES	1.9%
211500	GARAGE - WORK EQUIPMENT	4.74%
211600	WORK EQUIPMENT	4.98%
212100	BUILDINGS	3.26%
212200	FURNITURE	0.1%
212300	OFFICE EQUIPMENT	3.0%
212310	OFFICE SUPPORT EQUIPMENT	20.00%
212315	COMPUTER SOFTWARE	20.00%
212320	CO COMMUNICATION EQUIPMENT	14.79%
221200	CO SWITCH	6.02%
222000	CO OP SYSTEM	10.57%
223100	CO TRANSMISSION RADIO	0.0%
223200	CO TRANSMISSION CIRCUIT	16.86%
241100	POLES	0.0%
242100	AERIAL CABLE	5.88%
242200	UNDERGROUND CABLE	0.1%
242220	UNDERGROUND FIBER OPTIC	4.00%
242300	DIRECT BURIED CABLE	1.83%
242320	BURIED FIBER	4.09%
244100	CONDUIT & MANHOLE SYSTEMS	2.07%

# Attachment 5

## Annual Progress Report Sample

Report As of September 15, 2018 for 12 month period

NO.	ACCOUNT No(s).	PROJECT NAME	LOCATION	PROJECT DESCRIPTION	CATEGORY OF PROJECT TYPE	BURIED CABLE MILES (if Applicable)	BROADBAND SPEED AVAILABLE (If Applicable)	HOMES/LOCATIONS PASSED (If Applicable)	START DATE
A	B	C	D	E	F	G	H	I	J

Attachment 5

PLANNED COMPLETION DATE K	ANTICIPATED COST RANGE AS OF PRIOR ETC FILING (\$) L	PROJECT STATUS M	ACTUAL COST (\$) (If Applicable) N	Explanation of Material Cost Deviations From Proposed Project Costs (If Any) O	PURPOSE & BENEFIT P	NOTES (If Applicable) Q
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# Exhibit 2

## Results of Operations and Relevant Comparisons

### Illustrative Detail

Sierra Telephone Company, Inc. Test Year 2018 Results of Operations and Relevant Comparisons (Illustrative Detail)						
		ORA	Sierra	Difference		Proposed
		Proposed	Proposed	Proposed Intrastate		Settlement
		Intrastate	Intrastate	\$	%	Intrastate
		A	B	C=A-B	D=C/B	E
Operating Revenues:						
1	Local Rev.	7,011,093	6,535,443	475,650	7.28%	7,251,907
	Intrastate:					
2	Access Rev.	791,871	791,871	0	0.00%	791,871
3	Toll Rev.					
4	Interstate USF	1,877,545	1,877,545	0	0.00%	1,877,545
5	Interstate Settlement Rev.					
6	Miscellaneous Rev. & Uncollect	1,535,247	1,174,634	360,613	30.70%	1,174,634
7	CHCF-A	9,717,777	16,474,913	(6,757,136)	-41.01%	12,479,462
8	Total	20,933,533	26,854,406	(5,920,873)	-22.05%	23,575,419
Operating Expenses:						
9	Plant Specific	4,796,759	5,832,556	(1,035,797)	-17.76%	5,732,556
10	Plt. Non-Spec.(less Depr.)	1,963,825	2,560,870	(597,045)	-23.31%	2,536,177
11	Customer Operations	3,425,455	3,605,205	(179,750)	-4.99%	3,605,205
12	Corporate Operations	1,522,052	3,989,020	(2,466,968)	-61.84%	1,522,052
13	Depr. & Amort.	6,622,030	7,111,652	(489,622)	-6.88%	6,622,030
14	Total	18,330,121	23,099,303	(4,769,182)	-20.65%	20,018,020
Tax Liabilities:						
15	Other Taxes	374,517	374,517	0	0.00%	374,517
16	State and Federal Income Tax	437,721	1,233,236	(795,515)	-64.51%	1,154,482
17	Total Expense and Tax	19,142,359	24,707,056	(5,564,697)	-22.52%	21,547,019
18	Net Operating Income	1,791,174	2,147,350	(356,176)	-16.59%	2,028,400
Rate Base:						
19	2001 - TPIS	118,583,587	120,265,363	(1,681,776)	-1.40%	119,790,661
20	2003 - TPUC	62,257	2,181,724	(2,119,467)	-97.15%	1,121,991
21	1220 - Mat. and Sup.	1,119,556	1,119,556	0	0.00%	1,119,556
22	1500 - Other Regulatory Asset					

23	Working Cash	1,191,191	1,615,802	(424,611)	-26.28%	1,615,802
24	Less: Accum. Depr.	(86,677,852)	(87,040,627)	362,775	-0.42%	(86,796,327)
25	Less: Deferred Inc Tax	(5,131,347)	(5,131,347)	0	0.00%	(5,131,347)
26	Less: Def Asset-Liability	(9,720,336)	(9,720,336)	0	0.00%	(9,720,336)
27	Less: Customer Deposits	0	0	0	0.00%	0
28	Total Rate Base	19,427,056	23,290,135	(3,863,079)	-16.59%	22,000,000
29	Rate of Return	9.22%	9.22%			9.22%

## **APPENDIX TWO**

**OCTOBER 2, 2017**

**NATIONAL EXCHANGE CARRIER ASSOCIATION  
CORRESPONDENCE ON 2018 USF**

**A.16-10-003**



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**For your information**  
**2018 estimated USF HCL expense adjustment**

October 2, 2017

TO: General and USF contacts at legacy rate-of-return companies

**USF filing**

On September 29, 2017, we filed your USF High Cost Loop data with the FCC and USAC. Along with the amounts you reported to us, we filed the unseparated revenue requirement, loop cost, and projected expense adjustment amounts we calculated based on your data. We also filed the number of exchanges you have listed in NECA's Customer Database. **The filed projected expense adjustment amounts include the effect of the limitations on corporate operations expense and operating expenses and an authorized rate of return of 10.625 percent (a blend of 10.75 percent for the January through June 2018 period and 10.50 percent for the July through December 2018 period). The projected expense adjustments do not reflect potential adjustments made by USAC for the \$250 support cap, the rate floor adjustment and the overall budget control mechanism.**

**Your estimated expense adjustment is attached**

Your estimated expense adjustment based on the frozen NACPL of \$647.87 is provided in Attachment 1. The initial pro rata adjustment necessary to satisfy the overall cap in funding is 0.811514. Your expense adjustment will change throughout the year due to data corrections and other revisions, voluntary quarterly data updates submitted by your company and/or other companies that might necessitate changes to the pro rata adjustment factor.

We anticipate the pro rata adjustment factor in 2018 to decrease from the initial filed amount to keep the high cost loop fund under the cap. Decreases in the pro rata adjustment factor typically result in reductions in individual company expense adjustment amounts, especially for those companies not submitting revisions or quarterly updates.

**Questions?**

If you have questions, please contact your member service team.

Sincerely,

Carol A. Brennan

Attachments

cc: Authorized consultants



**Universal Service Fund  
High Cost Loop Support**

**Study Area: 542338 SIERRA TELEPHONE CO**

Expense Adjustment Projection for 2018 (Data as of September 29, 2017)		
1.	USF Unseparated Revenue Requirement	\$15,800,078
2.	USF Loops	17,688
3.	Study Area Cost Per Loop	\$893.27
4.	Preliminary Estimated 2018 Annual Expense Adjustment (applying the frozen NACPL)	\$1,704,109
5.	Estimated 2018 Pro Rata Adjustment Factor	0.811514
6.	Estimated 2018 Annual Expense Adjustment * (applying the pro rata adjustment factor)	\$1,382,909

---

National Average Cost Per Loop Trend (NACPL) Trend

Payment Year	Filed View	Latest View
2014	\$596.07	\$603.79
2015	\$632.93	\$647.18
2016 (frozen)	\$647.87	\$647.87
2017 (frozen)	\$647.87	\$647.87
2018 (frozen)	\$647.87	\$647.87

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Notes:

\* This amount excludes any potential effects of the \$250 cap, the impact of any rate floor adjustments, and the impacts of the budget control mechanism. This estimate is provided for informational purposes only. Actual support may differ.

## **APPENDIX THREE**

**(originally filed as “Exhibit 2” to parties’ Joint Motion for Adoption of Settlement Agreement )**

# **SIERRA TELEPHONE COMPANY, INC. TEST YEAR 2018 RESULTS OF OPERATIONS AND RELEVANT COMPARISONS (ILLUSTRATIVE) A.16-10-003**

Sierra Telephone Company, Inc. Test Year 2018 Results of Operations and Relevant Comparisons (Illustrative Detail)						
		ORA	Sierra	Difference		Proposed
		Proposed	Proposed	Proposed Intrastate		Settlement
		Intrastate	Intrastate	\$	%	Intrastate
		A	B	C=A-B	D=C/B	E
Operating Revenues:						
1	Local Rev.	7,011,093	6,535,443	475,650	7.28%	7,251,907
	Intrastate:					
2	Access Rev.	791,871	791,871	0	0.00%	791,871
3	Toll Rev.					
4	Interstate USF	1,877,545	1,877,545	0	0.00%	1,877,545
5	Interstate Settlement Rev.					
6	Miscellaneous Rev. & Uncollect	1,535,247	1,174,634	360,613	30.70%	1,174,634
7	CHCF-A	9,717,777	16,474,913	(6,757,136)	-41.01%	12,479,462
8	Total	20,933,533	26,854,406	(5,920,873)	-22.05%	23,575,419
Operating Expenses:						
9	Plant Specific	4,796,759	5,832,556	(1,035,797)	-17.76%	5,732,556
10	Plt. Non-Spec.(less Depr.)	1,963,825	2,560,870	(597,045)	-23.31%	2,536,177
11	Customer Operations	3,425,455	3,605,205	(179,750)	-4.99%	3,605,205
12	Corporate Operations	1,522,052	3,989,020	(2,466,968)	-61.84%	1,522,052
13	Depr. & Amort.	6,622,030	7,111,652	(489,622)	-6.88%	6,622,030
14	Total	18,330,121	23,099,303	(4,769,182)	-20.65%	20,018,020
Tax Liabilities:						
15	Other Taxes	374,517	374,517	0	0.00%	374,517
16	State and Federal Income Tax	437,721	1,233,236	(795,515)	-64.51%	1,154,482
17	Total Expense and Tax	19,142,359	24,707,056	(5,564,697)	-22.52%	21,547,019
18	Net Operating Income	1,791,174	2,147,350	(356,176)	-16.59%	2,028,400
Rate Base:						
19	2001 - TPIS	118,583,587	120,265,363	(1,681,776)	-1.40%	119,790,661
20	2003 - TPUC	62,257	2,181,724	(2,119,467)	-97.15%	1,121,991
21	1220 - Mat. and Sup.	1,119,556	1,119,556	0	0.00%	1,119,556
22	1500 - Other Regulatory Asset					



23	Working Cash	1,191,191	1,615,802	(424,611)	-26.28%	1,615,802
24	Less: Accum. Depr.	(86,677,852)	(87,040,627)	362,775	-0.42%	(86,796,327)
25	Less: Deferred Inc Tax	(5,131,347)	(5,131,347)	0	0.00%	(5,131,347)
26	Less: Def Asset-Liability	(9,720,336)	(9,720,336)	0	0.00%	(9,720,336)
27	Less: Customer Deposits	0	0	0	0.00%	0
28	Total Rate Base	19,427,056	23,290,135	(3,863,079)	-16.59%	22,000,000
29	Rate of Return	9.22%	9.22%			9.22%

## **APPENDIX FOUR**

**(originally filed as “Exhibit 2” to October 11, 2017 Response of the Office of Ratepayer Advocates and Sierra Telephone Company, Inc. to September 28, 2017 Email Ruling of Administrative Law Judge )**

# **SIERRA TELEPHONE COMPANY, INC. TEST YEAR 2018 RESULTS OF OPERATIONS AND RELEVANT COMPARISONS (ILLUSTRATIVE DETAIL)**

**(Updated to include Interstate USF Per NECA October 2, 2017 Letter)**

**A.16-10-003**

Sierra Telephone Company, Inc. Test Year 2018 Results of Operations and Relevant Comparisons (Illustrative Detail)							
						Updated Interstate USF per NECA October, 2 2017 Letter F	
	ORA Proposed Intrastate A	Sierra Proposed Intrastate B	Difference Proposed Intrastate \$ % C=A-B D=C/B		Proposed Settlement Intrastate E		
Operating Revenues:							
1	Local Rev.	7,011,093	6,535,443	475,650	7.28%	7,251,907	7,251,907
Intrastate:							
2	Access Rev.	791,871	791,871	0	0.00%	791,871	791,871
3	Toll Rev.						
4	Interstate USF	1,877,545	1,877,545	0	0.00%	1,877,545	1,382,909
5	Interstate Settlement Rev.						
6	Miscellaneous Rev. & Uncollect	1,535,247	1,174,634	360,613	30.70%	1,174,634	1,174,634
7	CHCF-A	9,717,777	16,474,913	(6,757,136)	-41.01%	12,479,462	12,974,098
8	Total	20,933,533	26,854,406	(5,920,873)	-22.05%	23,575,419	23,575,419
Operating Expenses:							
9	Plant Specific	4,796,759	5,832,556	(1,035,797)	-17.76%	5,732,556	5,732,556
10	Plt. Non-Spec.(less Depr.)	1,963,825	2,560,870	(597,045)	-23.31%	2,536,177	2,536,177
11	Customer Operations	3,425,455	3,605,205	(179,750)	-4.99%	3,605,205	3,605,205
12	Corporate Operations	1,522,052	3,989,020	(2,466,968)	-61.84%	1,522,052	1,522,052
13	Depr. & Amort.	6,622,030	7,111,652	(489,622)	-6.88%	6,622,030	6,622,030
14	Total	18,330,121	23,099,303	(4,769,182)	-20.65%	20,018,020	20,018,020
Tax Liabilities:							
15	Other Taxes	374,517	374,517	0	0.00%	374,517	374,517
16	State and Federal Income Tax	437,721	1,233,236	(795,515)	-64.51%	1,154,482	1,154,482
17	Total Expense and Tax	19,142,359	24,707,056	(5,564,697)	-22.52%	21,547,019	21,547,019
18	Net Operating Income	1,791,174	2,147,350	(356,176)	-16.59%	2,028,400	2,028,400
Rate Base:							
19	2001 - TPIS	118,583,587	120,265,363	(1,681,776)	-1.40%	119,790,661	119,790,661
20	2003 - TPUC	62,257	2,181,724	(2,119,467)	-97.15%	1,121,991	1,121,991
21	1220 - Mat. and Sup.	1,119,556	1,119,556	0	0.00%	1,119,556	1,119,556
22	1500 - Other Regulatory Asset						
23	Working Cash	1,191,191	1,615,802	(424,611)	-26.28%	1,615,802	1,615,802
24	Less: Accum. Depr.	(86,677,852)	(87,040,627)	362,775	-0.42%	(86,796,327)	(86,796,327)
25	Less: Deferred Inc Tax	(5,131,347)	(5,131,347)	0	0.00%	(5,131,347)	(5,131,347)
26	Less: Def Asset-Liability	(9,720,336)	(9,720,336)	0	0.00%	(9,720,336)	(9,720,336)
27	Less: Customer Deposits	0	0	0	0.00%	0	0
28	Total Rate Base	19,427,056	23,290,135	(3,863,079)	-16.59%	22,000,000	22,000,000
29	Rate of Return	9.22%	9.22%			9.22%	9.22%

# Appendix 5

# Appearances

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(End of Appendix 5)